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SEP 10 2009

PSC SC  
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September 9, 2009

**Via Overnight Mail**

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Drive, Suite No. 100  
Columbia, South Carolina 29210

RECEIVED  
2009 SEP 10 11:10:12  
SC PUBLIC SERVICE  
COMMISSION

**Re: Petition of Palmetto Rural Telephone Cooperative for  
Commission Approval for Extraordinary Retirement Pursuant to  
Section 32.2000(g)(4) and (g)(5)**

Dear Mr. Terreni:

On behalf of Palmetto Rural Telephone Cooperative, John Staurulakis, Inc. ("JSI") respectfully submits the attached petition of Jason J. Dandridge in the matter described in the above heading to Albert Lewis, Division Chief, Pricing Policy Division. This filing is being provided to the South Carolina Public Service Commission and the South Carolina Office of Regulatory Services for informational purposes.

Please direct any inquiries or requests regarding the petition to Kenneth Cartmell ([kcartmell@jsitel.com](mailto:kcartmell@jsitel.com)).

Sincerely,

Kenneth T. Cartmell  
Senior Consultant-Regulatory

KTC/mk  
Attachment

cc: C. Dukes Scott, South Carolina Office of Regulatory Staff  
Jason J. Dandridge, Palmetto Rural Telephone Cooperative

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September 9, 2009

Albert M. Lewis  
Chief  
Federal Communications Commission  
Pricing Policy Division  
Wireline Competition Bureau  
445 12th Street SW  
Washington, DC 20554

**Palmetto Rural Telephone Cooperative Petition for Extraordinary Retirement  
Pursuant to Section 32.2000(g)(4) and (g)(5)**

Palmetto Rural Telephone Cooperative ("Palmetto" or "Cooperative") hereby requests the Federal Communications Commission ("FCC" or "Commission") for approval pursuant to Section 32.2000(g)(4)<sup>1</sup> of the Commission's rules to make the journal entries described herein to complete, effective January 1, 2009,<sup>2</sup> an extraordinary retirement of the central office DMS 100 switch ("DMS 100 or switch") described below. Specifically, the Cooperative requests approval for a journal entry comprising a credit to Account 3212, Accumulated Depreciation<sup>3</sup> totaling \$2,476,711.27 with a concomitant debit to Account 1438, Deferred maintenance and retirements<sup>4</sup> representing the combined effect of the retirement of the DMS 100 switch from Account 3212, Accumulated Depreciation associated with the retired switch and related net removal costs and salvage. With respect to the amortization for the extraordinary retirement, the Cooperative requests amortization over ten years, or \$247,671.13 per year, beginning with the calendar year 2009. The proposed amortization schedule is provided in the attached Exhibit A.

<sup>1</sup> 47 C.F.R. § 32.2000(g)(4).

<sup>2</sup> An effective date of January 1, 2009 will allow simplification of treatment of the extraordinary retirement in the Part 36/Part 69 jurisdictional separations/interstate access charge revenue requirement process. This simplification is discussed below.

<sup>3</sup> See 47 C.F.R. § 32.1200.

<sup>4</sup> See 47 C.F.R. § 32.1438.

## **I. Background**

Palmetto is a rural Incumbent Local Exchange Carrier ("ILEC") operating in South Carolina, Study Area Code 240536. Palmetto serves approximately 12,817 access lines. For purposes of compliance with the Commission's Part 32 Uniform System of Accounts ("Part 32 USOA"),<sup>5</sup> the Cooperative is a Class B company pursuant to Section 32.11.<sup>6</sup> Palmetto is an Average Schedule Carrier participating in the National Exchange Carrier Association, Inc. ("NECA") Common Line and Traffic Sensitive pools. As a participant in the NECA Common Line and Traffic Sensitive pools, the Cooperative is an issuing carrier of NECA Tariff F.C.C. No. 5 and bills interstate access charges pursuant thereto.

For several years, Palmetto has been working to improve its network, expand services, and increase penetration in its service territory. Additionally, Palmetto has launched an aggressive plan to deploy a fiber network in its service territory. Competitive forces as well as technological advances have driven the Cooperative's decision to replace their DMS 100 switch with a softswitch capable of working with fiber and other advanced technologies, in order to allow the Cooperative to provide more robust services. The Cooperative estimates that the net effect of removal costs and salvage will be *de minimis*, thereby without significant effect on Account 3212, Accumulated Depreciation.

At the end of 2008, the Cooperative finalized retirement accounting for the DMS 100 switch. The retirement entries comprised credits to Account 2212, Telecommunications Plant in Service ("TPIS")<sup>7</sup> for the historic cost of the retired Central Office Switching ("COS") and a credit to Account 3212, Accumulated Depreciation totaling \$569,892.48. The net effect of accumulated depreciation and removal costs and salvage associated with these assets is a net debit balance of \$1,954,778.04. The required proposed General Journal entries are provided in the attached schedule as Exhibit B.

The Cooperative is not subject to state prescription of depreciation rates unless undertaken as part of a local rate case. With respect to maintenance of accounts, the South Carolina Public Service Commission ("SCPSC") rules allow South Carolina telecommunications carriers to adopt the Commission's Part 32 USOA, an adoption that has been made and sustained by the Cooperative.<sup>8</sup> The South Carolina Public Service Commission rules are silent regarding depreciation.

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<sup>5</sup> See 47 C.F.R. Part 32.

<sup>6</sup> See 47 C.F.R. § 32.11.

<sup>7</sup> 47 C.F.R. § 32.2001.

<sup>8</sup> See South Carolina Code ("SCC") 58-9-340 (Law. Co-op. 1976) where the Public Service Commission of South Carolina is authorized to prescribe systems of accounting for jurisdictional telephone companies. In the discharge of its duties, the SCPSC issued Order No. 87-1396, In RE: Generic Proceeding to Consider the Adoption of the Revised Uniform System of Accounts for Telephone Companies, to formally direct that all jurisdictional telephone companies in South Carolina which, on January 1, 1988, adopt Part 32 accounting for interstate jurisdictional purposes also adopt Part 32 for intrastate jurisdictional purposes. Palmetto made this election effective January 1, 1988.

Moreover, Palmetto is a cooperative and an average schedule company. As a cooperative, the Cooperative does not stand to benefit in any way from the extraordinary retirement treatment that is being requested at this time. Any benefit that may occur as a result of this action passes directly to the cooperative's members. As an average schedule Cooperative under the NECA Tariff, the extraordinary retirement treatment being requested does not impact the manner in which the Cooperative receives settlements from NECA Pooling. Palmetto receives settlements from NECA based on their access lines and access minutes which are applied to the prescribed average schedule formulas. Their settlements are not cost based, and as such, the retirement of the DMS 100 will not have any impact on the revenues received from NECA. Consequently, the Cooperative's motives for requesting extraordinary retirement treatment are purely based on the rarity of this occurrence, and the Cooperative's determination to minimize the impact this transaction will have on its members.

## **II. The Palmetto DMS 100 Switch Central Office Telecommunications Plant in Service Meets the Criteria of Section 32.2000(g)(4) for Extraordinary Retirement**

The Part 32 USOA refers to "extraordinary retirements" as "plant retired for nonrecurring factors not recognized in depreciation"<sup>9</sup> or "extraordinary nonrecurring retirement not considered in depreciation"<sup>10</sup> Section 32.2000(4)(i) of the Commission's rules prescribes three criteria for a retirement to be considered as nonrecurring (extraordinary):

(4) Plant retired for nonrecurring factors not recognized in depreciation rates.

(i) A retirement will be considered as nonrecurring (extraordinary) only if the following criteria are met:

(A) The impending retirement was not adequately considered in setting past depreciation rates.

(B) The charging of the retirement against the reserve will unduly deplete that reserve.

(C) The retirement is unusual such that similar retirements are not likely to recur in the future.<sup>11</sup>

With respect to the first criterion, the current eight and one half percent depreciation rate for the DMS 100 switch never accounted for a scenario where this switch would be phased out thereby all but eliminating the base to which depreciation rates would be applied. As is the case for all ILECs, the Cooperative maintains separate depreciation categories for Central Office Switching. The Cooperative's eight and one

<sup>9</sup> See 47 C.F.R. § 32.2000(g)(4).

<sup>10</sup> See 47 C.F.R. § 32.1438(a)(1).

<sup>11</sup> 46 C.F.R. § 32.2000(g)(4)(i).

half percent depreciation rate for these categories produced \$259,841 in annual depreciation expense for COS in 2007 and \$472,901 in 2008.

It did not become apparent to the Cooperative that a debit balance would result from the retirement until the time of journalizing the retirement in 2008. Had the Cooperative done a depreciation study in the years preceding the retirement, it is unlikely any certainty would have been possible regarding the removal costs and salvage necessary to calculate depreciation rates that would have eliminated any need for an extraordinary retirement in the future. Assuming *arguendo* that the Cooperative had been able to perfectly estimate the final net debit balance in Account 3212, Accumulated Depreciation, attributable to the COS, the earliest point for that would have been sometime in 2008. When compared to annual depreciation expense levels, \$247, 671.13 in annual amortization associated with the retirement of the DMS 100 (over the next ten years) that the Cooperative is requesting is reasonable. Based on these circumstances, it was not possible for the Cooperative to adjust depreciation rates to avoid what turned out to be a significant debit balance in Account 3212, Accumulated Depreciation associated with the COS. Accordingly, the Cooperative believes the first criterion of Section 32.2000(g)(4)(i) is satisfied.

The Cooperative's retirement of Central Office Switching readily meets the second criterion related to undue depletion of the reserve inasmuch as significant debit balances have resulted within Accumulated Depreciation account as discussed above. Moreover, even considering COS as a whole, the debit balance reflective of the COS retirement is 20 percent of the current reserve for COS. Although this percentage when viewed alone may appear to be significant, the reserve balance as of December 31, 2008, after the retirement is still approximately \$6 million dollars, which is well within reason given the total assets of the Cooperative.<sup>12</sup> An accumulated depreciation reserves schedule is provided in the attached Exhibit C.

Finally, the completion of the migration from the DMS 100 switch to the softswitch satisfies the third criterion in that the instant request dramatically decreases the possibility, assuming the instant request is granted, for any future need for an extraordinary retirement for COS. Essentially, only *de minimis* balances remain to ever be retired. Obviously, a switch is a major investment for a telecommunications company, and therefore is not the type of investment that is made lightly, or frequently. The Cooperative envisions the useful life of the new softswitch to be seven (7) years, and will establish a depreciation rate for this softswitch that accounts for its useful life expectancy. Consequently, the future retirement of the new softswitch is a planned event that will not trigger an extraordinary retirement scenario. Thus, the third criterion is met in that the retirement is unusual, such that similar retirements are not likely to recur in the future.

Based on the foregoing, the Cooperative believes the retired DMS 100 switch meets the three criteria established in Section 32.2000(g)(4)(i) of the Commission's rules.

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<sup>12</sup> Assets for 2007 were \$63,980,591; assets for 2008 were \$62,379,954.

### **III. Discussion**

Market demands have required the Cooperative's deployment of more access equipment, such as digital loop carriers, in the field so that customer loops are shortened and they are able to receive greater bandwidth; allowing a larger number of customers to gain access to broadband services such as DSL access. The investment in the new softswitch was necessary to facilitate these service developments. The new softswitch will help to position the Cooperative to use VoIP if it chooses to do so in the future, which will generate substantial cost savings for Palmetto. Additionally, there are enhanced customer features available through the softswitch that are not available through the DMS 100 Switch. In order to remain competitive as well as continue to provide members with the services that today's marketplace requires, the purchase of the new softswitch was a necessary fact of doing business. However, as this purchase was not a part of the Cooperative's near term capital expenditures, extraordinary retirement treatment is requested in order to minimize the financial affect of this retirement on Palmetto's members, and maintain the financial stability of the Cooperative.

Palmetto does not stand to benefit in any way from the extraordinary retirement treatment that is being requested at this time. Any benefit that may occur as a result of this action passes directly to the Cooperative's members. With respect to Universal Service High Cost Support, the assistance that Palmetto receives from the Universal Service Fund is based on line count information provided by the Cooperative in conjunction with support levels associated with the relevant study areas. The Cooperative's Universal Service Support is not affected in any way by the requested accounting treatment. Palmetto believes that the circumstances surrounding this retirement clearly meet the three criteria outlined in the Commission's rules governing requests for extraordinary retirements, and therefore the request for extraordinary retirement treatment should be granted.

### **IV. An Effective Date of January 1, 2009 Allows for Simplification of Financial Reporting**

As mentioned above, the Cooperative is requesting treatment of the extraordinary retirement as taking effect as of January 1, 2009. Such treatment would allow, for purposes of Part 36 and Part 69, the net-effect of the DMS 100 Switch retirement to be removed from the beginning balance of Account 3100 and included as of January 1, 2009 in Account 1438, Deferred maintenance and retirements balance. Moreover, such treatment would be consistent with a full year of amortization of the Account 1438, Deferred Maintenance balance related to the DMS 100 switch for 2009. Full-year 2009 treatment will increase expenses by the entire amount of the amortization inasmuch as there is no depreciation or amortization for the net-debit balance related to the DMS 100 switch in Account 3212, Accumulated Depreciation. Additionally, with full-year amortization for 2009, the balance in Account 1438, Deferred Maintenance which is reflective of the extraordinary retirement of the DMS 100 Switch will disappear completely by December 31, 2018 instead of in late 2019 as would be the case if a later effective date was proposed.

V. Conclusion

Based on the foregoing, Palmetto believes it has met the criteria under Section 32.2000(g)(4) for approval from the Commission to make the journal entries described herein and reflected on Exhibit B, effective January 1, 2009.

Also based on the foregoing, the Cooperative believes it has supported an amortization period of ten years, resulting in amortization beginning in 2009 of \$247,671.13 per year for ten years (through 2018). Finally, the Cooperative believes the circumstances of the extraordinary retirement support the approval by the Commission of this request for inclusion, pursuant to Commission regulations, of the resulting balance in Account 1438, Deferred Maintenance and retirements net of amortization.

Accordingly, Palmetto respectfully requests authorization from the Commission to effect an extraordinary retirement as described above.

Sincerely,

A handwritten signature in black ink, appearing to be 'JJD', written over a horizontal line.

Jason J. Dandridge

CEO  
Palmetto Rural Telephone Cooperative  
2471 Jefferies Highway  
Post Office Box No. 1577  
Walterboro, South Carolina 29488  
843-538-2020

KTC/tms  
Enclosures

cc: South Carolina Public Service Commission  
South Carolina Office of Regulatory Staff

Palmetto Rural Telephone Cooperative  
Proposed Extraordinary Retirement  
Exhibit A: Proposed Amortization

Year	Beginning Balance	Amortization at 10%	Ending Balance	Average Balance
2009	\$ 2,476,711.27	\$ 247,671.13	\$ 2,229,040.14	\$ 2,352,876.00
2010	2,229,040.14	247,671.13	1,981,369.01	2,105,205.00
2011	1,981,369.01	247,671.13	1,733,697.88	1,857,533.00
2012	1,733,697.88	247,671.13	1,486,026.75	1,609,862.00
2013	1,486,026.75	247,671.13	1,238,355.62	1,362,191.00
2014	1,238,355.62	247,671.13	990,684.49	1,114,520.00
2015	990,684.49	247,671.13	743,013.36	866,849.00
2016	743,013.36	247,671.13	495,342.23	619,178.00
2017	495,342.23	247,671.13	247,671.10	371,507.00
2018	247,671.10	247,671.13	(0.03)	123,836.00

Amortization to be charged to Account 6561, Depreciation expense.

Palmetto Rural Telephone Cooperative  
Proposed Extraordinary Retirement  
Exhibit B: General Journal Entries

Journal ID Date	Comp Code	Account ID	Account Description	Description	Debit	Credit
12/31/2008	PRTC	2212.10.0-0000.00.00	Digital CO (DMS 100) Elec Sw	DMS 100 Retirement	340,487.00	0.00
12/31/2008	PRTC	3212.10.0-0000.00.00	A/D - Dig CO (DMS 100) EL	DMS 100 Retirement	0.00	569,892.48
12/31/2008	PRTC	2212.00.0-0000.00.00	CO Switching/Digital	DMS 100 Retirement	0.00	1,898,672.38
12/31/2008	PRTC	3212.00.0-0000.00.00	A/D - CO Switching/Digital	DMS 100 Retirement	187,787.16	0.00
12/31/2008	PRTC	2212.11.0-0000.00.00	Nortel / Co Software	DMS 100 Retirement	0.00	69,328.10
12/31/2008	PRTC	3212.11.0-0000.00.00	A/D - Nortel / CO Software	DMS 100 Retirement	69,328.10	0.00
12/31/2008	PRTC	2212.12.0-0000.00.00	Nortel Switch	DMS 100 Retirement	0.00	2,814,472.99
12/31/2008	PRTC	3212.12.0-0000.00.00	A/D - Nortel Switch	DMS 100 Retirement	2,254,684.37	0.00
12/31/2008	PRTC	2212.13.0-0000.00.00	COE - LNP Equipment	DMS 100 Retirement	0.00	51,675.00
12/31/2008	PRTC	3212.13.0-0000.00.00	A/D - COE-LNP Equipment	DMS 100 Retirement	10,248.28	0.00
12/31/2008	PRTC	2212.20.0-0000.00.00	Digital Remotes (RSC)	DMS 100 Retirement	0.00	7,827.84
12/31/2008	PRTC	3212.20.0-0000.00.00	A/D - Digital Remotes RSC	DMS 100 Retirement	2,622.61	0.00
12/31/2008	PRTC	1438.00.0-0000.00.00	Extraordinary Retirement	DMS 100 Retirement	2,546,711.27	0.00
<b>Total:</b>					<b>5,411,868.79</b>	<b>5,411,868.79</b>

Palmetto Rural Telephone Cooperative  
Proposed Extraordinary Retirement  
Exhibit C: Trial Balance

Account ID	Account Description	December 31, 2007	December 31, 2008	Change in Account Balance	Percent Change In Account Balance
3212.00.0-0000.00.00	A/D - CO Switching/Digital	\$ 63,680.90	\$ -	\$ (63,680.90)	-100%
3212.10.0-0000.00.00	A/D - Dig CO (DMS 100) EL	\$ 755,550.37	\$ 1,410,226.44	\$ 654,676.07	87%
3212.11.0-0000.00.00	A/D - Nortel / CO Software	\$ 68,542.10	\$ -	\$ (68,542.10)	-100%
3212.12.0-0000.00.00	A/D - Nortel Switch	\$ 2,015,506.56	\$ -	\$ (2,015,506.56)	-100%
3212.13.0-0000.00.00	A/D - COE-LNP Equipment	\$ 5,856.46	\$ -	\$ (5,856.46)	-100%
3212.14.0-0000.00.00	A/D -COE ATM	\$ 686.39	\$ 1,201.05	\$ 514.66	75%
3212.15.0-0000.00.00	A/D - Upgrade CO Switch	\$ -	\$ -	\$ -	0%
3212.20.0-0000.00.00	A/D - Digital Remotes RSC	\$ 1,846.99	\$ 6,030.46	\$ 4,183.47	227%
3212.30.0-0000.00.00	A/D - Digital CO DLSC AFC	\$ 1,391.66	\$ 2,319.92	\$ 928.26	67%
3212.40.0-0000.00.00	A/D - CO T1	\$ 1,468,711.48	\$ 1,472,837.07	\$ 4,125.59	0%
3212.50.0-0000.00.00	A/D - CO Test EQ * Genera	\$ 749,019.49	\$ 749,019.49	\$ -	0%
3212.60.0-0000.00.00	A/D - Upg Sw/Sonet Alcatel	\$ 912,132.13	\$ 912,132.13	\$ -	0%
3212.70.0-0000.00.00	A/D - Fiber Optics Electr	\$ 1,228,401.63	\$ 1,228,401.63	\$ -	0%
3212.80.0-0000.00.00	A/D - CO Nortel Palmettonet	\$ 67,054.06	\$ 74,335.38	\$ 7,281.32	11%
3212.90.0-0000.00.00	A/D - Newbridge Switch	\$ 93,719.39	\$ 93,719.39	\$ -	0%
	<b>Total:</b>	\$ 7,432,099.61	\$ 5,950,222.96	\$ (1,481,876.65)	20%